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## AT DEADLINE

### CALPERS buys complex

LOS ANGELES — The California Public Employees' Retirement System paid $200 million for the Trillium, a mixed-use complex in Woodland Hills here. Equitable Real Estate was the adviser.

### Funding proposal aired

PITTSBURGH — The PBGC agreed to a proposal that would pump $110 million into six underfunded pension plans of Sharon Steel Corp.

Under the proposal, delinquent contributions to the plans will be made in full and contributions for the next four years will be guaranteed. It was worked out between the PBGC; Castle Harlan, which wants to purchase Sharon's steel operations; and Quantum Fund, a major creditor following Sharon's April 1987 bankruptcy filing.

### Stock price prompts suit

PHILADELPHIA — Trustees of the Mazza Siegel Associates money purchase plan filed a lawsuit claiming the officers and directors of Braniff Inc. violated securities law by giving misleading data about Braniff's financial condition.

They claim the price of Braniff stock was inflated artificially between June 1988, when they bought the stock, and Braniff's Chapter 11 filing in September 1989.

### SEI's Bullion resigns

William F. Bullion, executive vice president of SEI Corp., is calling it quits after 15 years in consulting. Al West, SEI's chairman and president, will assume his duties.

### Dinkins names appointee

NEW YORK — Leressa Crocket, a Salomon Brothers vice president, was appointed commissioner of Financial Services Corp., New York's economic development arm, by Mayor David Dinkins.

## INSIDE

### Back to the future

*Pensions & Investments* moves into the '90s with a new look — and a return to an old name. *P&I* now holds more news, more commentary, more impact. Turn to page 16 for more information.

# Indexing surges on foreign input

**By Hillary Durgin and Terry Williams**

Domestic equity indexing surged in the six months ended Nov. 30, fueled by foreign investors following their American counterparts into passive U.S. equity investing.

Total assets in domestic equity index funds climbed to $170 billion on Nov. 30 from $125.5 billion a year earlier.

Meanwhile, domestic equity index funds posted a six-month gain of 23.5%, or 13.8% when adjusted for the 9.7% return achieved by the Standard & Poor's 500 Stock Index during the period. For the previous six months, assets in domestic equity index funds had declined 6.3% on a market-adjusted basis.

Assets in domestic equity index funds increased 4.76% for the year ended Nov. 30, adjusted for market growth. (The category subtotals for the 12-month period are minus the assets of ANB Investment Management Co., Chicago, which would only provide a total asset figure this year.)

Overall, international index funds again attracted the largest percentage of tax-exempt assets during the six-month and one-year periods ended Nov. 30, gaining 54.6% and 97.9%, respectively, according to a *Pensions & Investments* survey of the largest index fund managers.

The bulk of the percentage growth in international index funds resulted from increased allocations to international bond funds, which grew 285.5% to $667 million from $173 million in six months, according to the survey.

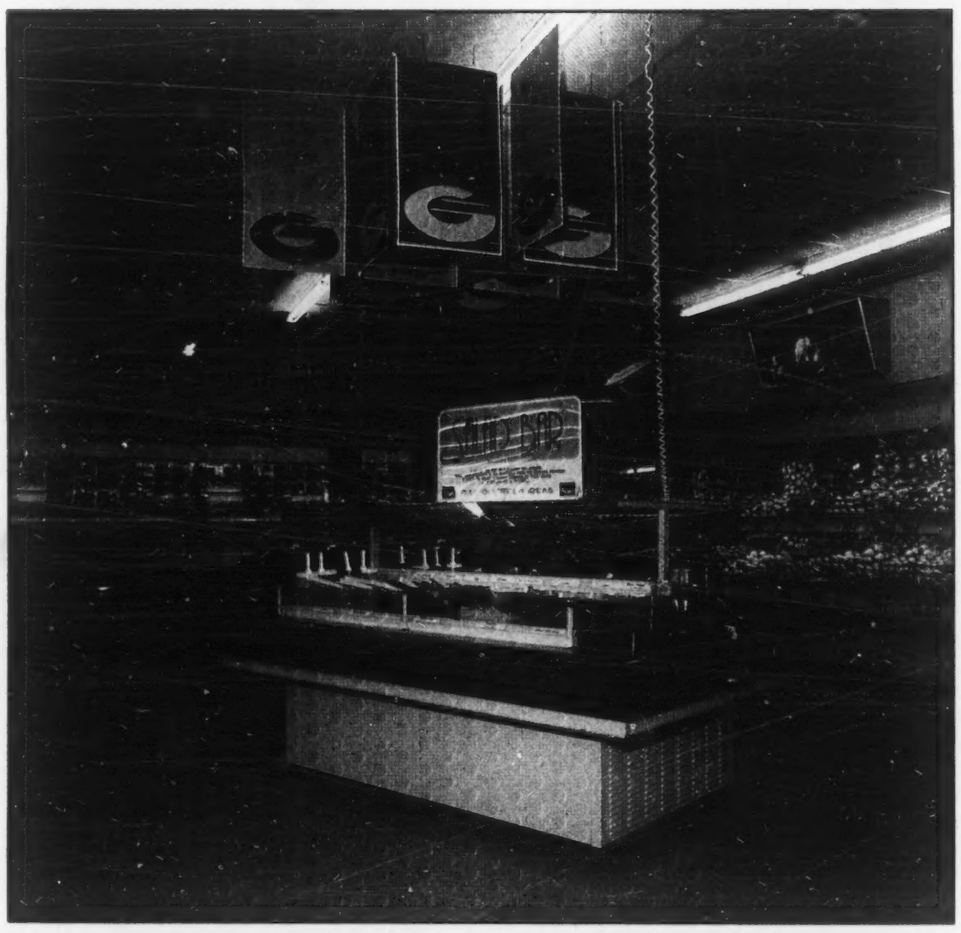
Adjusted for market appreciation, using the Salomon Brothers World Government Bond Index which posted a 6.8% return for the six- and 2.02% for the 12-month periods, international bond funds grew 278.6% and 333.8% in the respective periods.

International equity indexed assets increased to $21.196 billion as of Nov. 30 from $13.96 billion six months ago and $10.897 billion a year earlier.

Adjusted for market growth, international equity funds grew 40.25% for the six-month period and 84.4% for the one-year period, according to the survey. The Morgan Stanley Capital International Europe Australia Far East Index had returns of 11.53% and 7.45%, respectively, for the six months and year ended Nov. 30.

Domestic fixed-income index funds posted market-adjusted gains of 12.8% and 13% respectively for the six-month and one-year periods ended Nov. 30. The Shearson Lehman Hutton Government/

*See* **Indexing** *on page 31*



**The war over Gateway created Europe's first leveraged buy-out.**

# '89 a big-deal year

**By Marcia Parker**

Spurred by a keen interest among their corporate clients in global mergers and acquisitions, buy-outs, refinancings and other restructurings, dealmakers had a busy and, in some ways, historic year in 1989.

The year saw the biggest buy-out in history and the biggest bank financing for a single deal. A precedent-setting court ruling affirmed the right of boards of directors to control the fate of the companies they help guide. Global deals soared.

A hostile bid for a British food and retail company pitted London's esteemed merchant bank, S.G. Warburg & Co., against an increasingly

*See* **Deals** *on page 29*

**Global markets shine through in 1989's best deals — page 20.**

# 4 companies fight votes on parachutes

**By Marcia Parker**

In corporate America's first challenges of 1990 shareholder resolutions, four companies have asked the Securities and Exchange Commission to allow them to exclude from the proxy statement shareholder resolutions that call for "golden parachute" severance packages to be submitted to a non-binding shareholder vote.

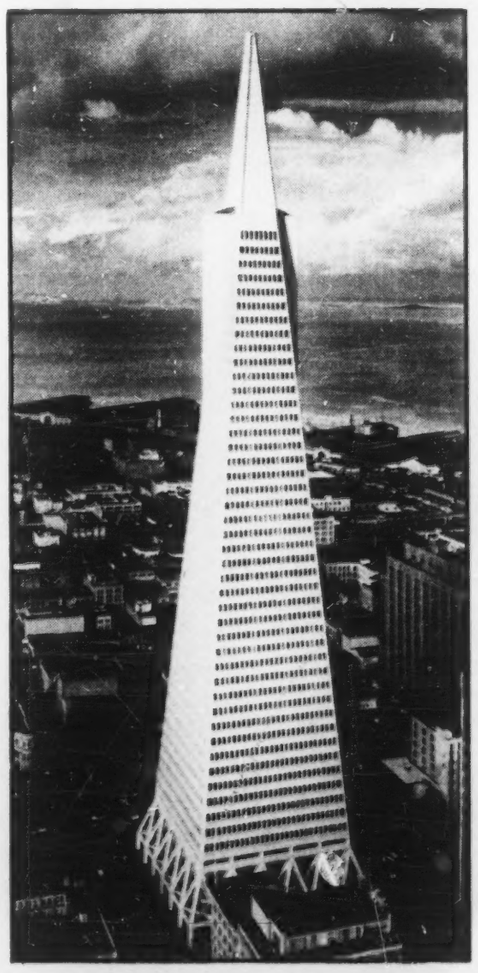
But the shareholders who sponsored them are fighting back.

Golden parachutes are sometimes viewed as anti-takeover devices because they provide executives with hefty — and therefore costly — compensation if they lose their jobs because of a takeover.

Transamerica Corp., Great Western Financial Corp., USX Corp. and Wendy's International Inc. are arguing the shareholder proposals dealing with severance pay sponsored by members of the shareholder activist group, United Shareholders of America, Washington, can be excluded because ordinary business items can't be the subject of shareholder proposals under SEC Rule 14a-8(c)(7). In the past the SEC has granted similar requests on those grounds.

They also argue the resolutions can be omitted because they contain false and misleading statements about the nature of the severance agreements, and imply management has acted improperly, a charge the sponsors deny. Under SEC rules, a proposal can be excluded if it violates agency rules and regulations by including false or misleading in-

*See* **Parachutes** *on page 31*



**Transamerica is fighting to keep golden parachutes off proxies.**

## NEWS DIGEST

**Fund offerings are set.** If the Securities and Exchange Commission approves, Bell Atlantic will offer no-load equity, fixed-income and money market mutual funds to employees and retirees. Page 3.

**What's hot and what's not for 1990.** In a *Pensions & Investments* survey of executives of pension funds and foundations, international investing tallies lots of votes as a hot strategy in 1990, while leveraged buy-outs and other strategies get thumbs down. Page 3.

**Keeping tabs on the up-and-comers.** Antoine W. van Agtmael, the Dutch-born president of Emerging Markets Investors Corp., prefers to buy stocks in emerging countries, likening the opportunities present there to "a strawberry field that hasn't been picked yet." Page 15.

**The merger between Warner Communications, which released the hit movie "Batman," and Time was one of *P&I*'s best deals of 1989.**

### FOCUS: BEST DEALS OF 1989

**Deals emphasize global markets.** In a year marked by many firsts in the global capital markets, *Pensions & Investments* examined hundreds of transactions to come up with the 10 best in terms of innovative structure and financing as well as market and industry impact. Page 20.

### FINANCING

**Records set in many areas.** As many market sectors enjoyed record-setting volume, Merrill Lynch Capital Markets captured the top spot in the league table sweepstakes among investment banks, finishing first in both new domestic issues and global offerings. Page 4.

### INTERNATIONAL

**Big and unusual investments mark 1989.** An initial plunge by the California Public Employees' pension fund makes it one of the largest international stock and bond investors, while other pension funds pursued non-traditional foreign markets. Page 2.

### REAL ESTATE

**Funds change purchasing habits.** Trying to reduce risk in an unpredictable market, institutional investors' biggest deals last year were mainly existing portfolios and huge properties that met set criteria. Page 2.

## DEPARTMENTS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# States seek pension capital

## Kentucky and Maryland promoting backyard ventures

**By Joel Chernoff and Trudy Ring**

Kentucky and Maryland are seeking to raise money from pension funds for in-state venture capital investments.

Kentucky officials hope to raise $20 million from state pension funds and other major investors for a venture capital pool to finance new businesses in the commonwealth.

Maryland is seeking to raise between $15 million and $25 million in the coming year from state and local pension systems for a venture capital fund that will emphasize, but not limit itself to, early stage financing of Maryland companies.

To raise the capital and to manage the fund, Kentucky's Finance and Administration Cabinet has hired Massey Burch Investment Group Inc., a Nashville, Tenn.-based venture capital firm that manages more than $170 million in assets.

The firm specializes in Southeastern investments. Jack Massey, the firm's chairman, is the only individual to have founded and listed three firms on the New York Stock Exchange: Hospital Corp. of America; Kentucky Fried Chicken; and Winners Corp.

As the general partner, Massey Burch will receive a 2.5% annual management fee, plus 20% of profits after limited partners receive 125% of their committed capital.

Investment guidelines for Kentucky's Commonwealth Venture Fund are being worked out, but essentially the fund will invest up to $500,000 per company in seed capital and early stage financings.

The 12-year fund will invest in non-manufacturing companies with up to $500,000 in invested capital, and manufacturing firms with no more than $1.5 million in invested capital. Twenty percent of the fund must be invested in agribusiness.

As part of a recommendation from Massey Burch, the state will seek legislative authority to permit the fund to engage in later-stage financing for its portfolio companies.

Massey Burch officials say that, unlike much of the country where too many dollars are chasing too few deals, there is a need for venture capital in the Southeast.

"Kentucky and the Southeast are very much underinvested in venture capital," said E. Townes Duncan, vice president and principal at Massey Burch. He noted only 10% of venture capital assets are invested in the Southeast (excluding Texas), and only 2% of venture capital assets are managed by Southeastern firms.

James R. Ramsey, Kentucky's state economist and executive director of the cabinet's Office for Investment and Debt Management, said he hopes the Commonwealth Venture Fund can obtain half of its commitments by the end of January.

Massey Burch will match up to $5 million in commitments by state sources, giving the firm a strong commitment to the investments.

State officials will look to the state's two major retirement systems — the $3.2 billion Kentucky Retirement Systems and the $3.5 billion Kentucky Teachers' Retirement System, both based in

*See* **States** *on page 30*

# 1989's realty deals try to reduce risk

**By Steve Hemmerick**

Institutional investors initiated some multibillion-dollar, high-profile property deals in 1989, trying to take as much risk as possible out of what has been an unpredictable real estate market.

Though slow to change their habits, investors increasingly are going after either existing portfolios or mega-trophy properties within a narrowly defined range of criteria instead of making commitments for unspecified properties through commingled funds.

The biggest real estate deal of the year, of course, is the $815 million convertible mortgage by Aldrich, Eastman & Waltch Inc. on the world's tallest building, the 1,455-foot Sears Tower in Chicago. Real estate industry sources said the firm might use some of the assets in its $934 million AEW Partners Fund to provide the loan. In addition, sources said AEW might seek additional financing from individual pension fund investors.

In another deal involving pension fund money, the California Public Employees' Retirement System is negotiating to buy a 20% stake in the real estate unit of Santa Fe Pacific Corp., Chicago, for approximately $400 million. Santa Fe owns 2.8 million acres of property and 219 buildings.

Also, JMB Acquisition Partners L.P., a limited partnership put together by JMB Institutional Realty Corp., Chicago, to acquire whole companies or divisions whose assets are mainly in real estate, has purchased Randsworth Trust PLC, London, for about $800 million. Randsworth is a commercial real estate firm with 35 properties in the London area, 90% in the West End. JMB plans to sell substantial amounts of the shares of the Randsworth deal to pension fund clients.

In all three instances, pension investors were pursuing investments to meet very specific real estate objectives, and they are unlike many past pension investments in blind pools.

In blind pools, such as many commingled funds, the investment advisers only have outlines — sometimes vague — of unselected properties in which the money will be invested after it is contributed.

Partly in reaction to declining

*See* **Realty** *on page 29*

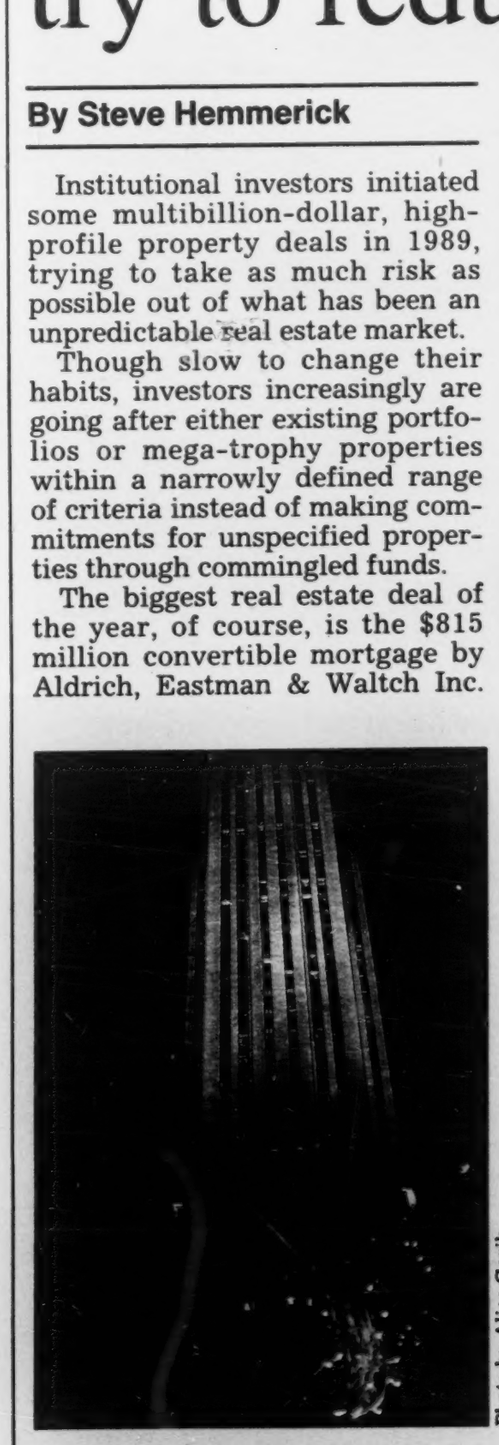


Photo by Alice Garik

**A piece of Rockefeller Center was acquired by the Japanese.**

Photo by John Kennard

**PRIM's Paul Quirk**

# International arena teems with activity

**By Margaret Price**

Amid 1989's surging markets, one first-time investor plowed $3 billion into international stocks and bonds, another devised a novel strategy to purchase foreign stocks and some seasoned investors pursued emerging markets, foreign venture capital and leveraged/management buy-outs.

Officials for the $54 billion California Public Employees' Retirement System last year handed out $3 billion to its first international managers, moving toward a target of 16% of assets invested internationally "probably midway through 1991," said Basil J.

*See* **International** *on page 30*

# Bankers see record volume in many areas

**By Marcia Parker**

NEW YORK — Kingpin Merrill Lynch Capital Markets snared the coveted top spot among investment banks for the second year in a row, capturing No. 1 in both new domestic and global issues.

Merrill raised $45.4 billion in the U.S. new-issue market, for a 14.7% share of the $308.3 billion market. In the global arena, Merrill raised $51.9 billion, for a 9.9% share of the $525.7 billion market, according to Securities Data Co., Newark, N.J.

Yet Morgan Stanley & Co. Inc. topped all investment banks in the dollar value of deals closed in 1989. The firm advised on completed deals valued at $119.8 billion, an unprecedented yearly total. First Boston Corp. placed first in the number of deals completed (190) and first in the value of successful defenses ($28.6 billion). Goldman, Sachs & Co. led in the value of deals pending ($59 billion).

The volume of U.S. corporate new issues reached an all-time high, with 2,105 issues totaling $308.3 billion brought to market in 1989, Securities Data said.

Despite this record volume, investment bankers chased fewer deals and decreased fees. Disclosed fees suffered a drop-off of more than $850 million from 1988's level of $3.9 billion.

Issuers of common stock raised just $22.6 billion, accounting for 7.5% of the total market. But $271.5 billion worth of fixed-income securities were offered in 1989, a market buoyed by the decline in interest rates and a boom in collateralized securities.

While a sluggish U.S. economy sent the dollar to lower levels against the deutsche mark and the yen, the international market continued to rally as a record-breaking $215 billion was raised. Japanese investment banks were the big winners.

In U.S. domestic financing, Merrill Lynch was the No. 1 manager of domestic new issues, underwriting $45.4 billion. Investment-grade, straight, convertible, asset-backed and junk bonds are all areas in which Merrill enjoyed an increase in its market share and dollar volume.

A declining yield on the treasury's benchmark 30-year bond caused the straight debt market, excluding mortgage and asset-backed securities, to rally to a three-year high of $133.1 billion. The junk-bond saga and the cooling off in the mergers and acquisitions market boosted AAA-rated securities; some $21.8 billion worth were issued in 1989, the highest annual level ever.

In the junk-bond market, 1989 may be remembered as a trip to the junk yard. Falling prices coupled with forced selling by many institutions caused this market sector to experience its worst year since 1985. Dollar volume decreased to $25.3 billion, 8.8% less than 1988. The number of junk-bond offerings fell to 131 compared with 160 in 1988, 190 in 1987 and 226 in 1986. Disclosed fees fell below $900 million for the first time in four years, to $807.7 million.

Still, Drexel Burnham Lambert Inc. remained on top of the junk-bond charts. The firm underwrote $9.7 billion for a market share of 38.3%. This represents the first time the firm's year-end market share is below 40%.

Although the stock market rose more than 27% in 1989, common stock issuance plummeted to its lowest level in the past four years. This market segment raised just $22.6 billion, 24.4% less than the $29.9 billion raised in 1988, 45.4% less than 1987's $41.4 billion. The number of offerings, however, increased to 455 from 427 in 1988. Goldman, Sachs was the leader in this category, raising $3.8 billion.

Initial public offerings all but dried up in 1989. Fees totaled just $876 million compared with $1.6 billion in 1988. The dollar volume also declined significantly, to $13.7 billion, a 42.4% decrease from 1988's level of $23.8 billion.

The mortgage- and asset-backed securities market continued to sizzle in 1989, raising an unprecedented $130.8 billion.

For the second consecutive year, Goldman, Sachs was the No. 1 manager of mortgage- and asset-backed debt, underwriting $21.3 billion of these securities.

Anticipation of a single market throughout Europe in 1992 helped to stimulate the international marketplace to its greatest annual volume to date, raising $215 billion, compared with $182.5 billion in 1988. A continued trade surplus aided Japanese investment banks. Nomura Securities International Inc. led this area for the third year in a row, handling $32.8 billion.

The Eurobond market was flooded with issues valued at $1 billion or greater in 1989. Of the 14 in that category, 12 were done by Japanese issuers and had equity warrants attached. Japanese issuers accounted for 35.7% of this $205.2 billion market. In 1988, only two issues — both by the government of Italy — raised more than $1 billion.

The volume of international equities stayed on pace with last year's. Goldman, Sachs rose to the top, bringing $624.3 million to market, with each issue offering a U.S. tranche.

In the domestic merger and acquisitions arena, volume slumped in the fourth quarter, contributing to a general decline in activity for the year. 1989 produced 1,539 transactions of $10 million or greater, carrying a total value of $388.3 billion. That value represented a 32.7% decline from the $576.6 billion total for the 1,653 deals of the same value range announced during 1988.

Leveraged buy-out activity showed an equally dramatic decline. The number of announced leveraged buy-outs of U.S. targets valued at $10 million or more dropped to 161 from 235. ■

# 1989 underwriting rankings
## (Full credit to lead manager)

### All issues - global*

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Merrill Lynch (1) | 51,937.6 | 9.9 |
| 2. First Boston/CSFB** (2) | 47,402.0 | 9.0 |
| 3. Goldman, Sachs (3) | 47,198.2 | 9.0 |
| 4. Salomon Brothers (4) | 36,016.2 | 6.9 |
| 5. Morgan Stanley (6) | 35,888.7 | 6.8 |
| 6. Nomura Securities (8) | 34,213.2 | 6.5 |
| 7. Shearson Lehman (5) | 27,109.4 | 5.2 |
| 8. Prudential-Bache (10) | 17,869.2 | 3.4 |
| 9. Drexel Burnham (7) | 16,992.9 | 3.2 |
| 10. Daiwa Securities (11) | 16,967.2 | 3.2 |

* All taxable issues, debt and equity, worldwide
** First Boston/Credit Suisse First Boston
Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### All issues - domestic*

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Merrill Lynch (1) | 45,387.3 | 14.7 |
| 2. Goldman, Sachs (2) | 42,777.6 | 13.9 |
| 3. First Boston (4) | 37,748.8 | 12.2 |
| 4. Salomon Brothers (3) | 32,030.7 | 10.4 |
| 5. Morgan Stanley (6) | 28,826.8 | 9.3 |
| 6. Shearson Lehman (5) | 25,769.9 | 8.4 |
| 7. Prudential-Bache (8) | 17,754.8 | 5.8 |
| 8. Drexel Burnham (7) | 16,950.1 | 5.5 |
| 9. Bear, Stearns (9) | 16,777.1 | 5.4 |
| 10. Kidder, Peabody (10) | 8,546.2 | 2.8 |

* All taxable issues, debt and equity, sold in U.S. only
Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### All issues - domestic*

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Merrill Lynch (1) | 30,021.1 | 18.7 |
| 2. Morgan Stanley (7) | 20,790.5 | 12.9 |
| 3. Goldman, Sachs (3) | 19,564.3 | 12.2 |
| 4. Salomon Brothers (2) | 18,647.8 | 11.6 |
| 5. First Boston (5) | 17,637.0 | 11.0 |
| 6. Shearson Lehman (4) | 15,957.8 | 9.9 |
| 7. Drexel Burnham (6) | 11,647.0 | 7.3 |
| 8. Kidder, Peabody (9) | 3,552.2 | 2.2 |
| 9. Prudential-Bache (8) | 2,863.4 | 1.8 |
| 10. PaineWebber (11) | 2,675.4 | 1.7 |

* All taxable issues, debt and equity, excluding mortgage and asset-backed debt and agency issues, sold in U.S. only
Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### All debt issues

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Merrill Lynch (2) | 40,282.5 | 14.5 |
| 2. Goldman, Sachs (1) | 38,672.0 | 13.9 |
| 3. First Boston (4) | 35,855.2 | 12.9 |
| 4. Salomon Brothers (3) | 31,009.4 | 11.2 |
| 5. Morgan Stanley (5) | 27,154.8 | 9.8 |
| 6. Shearson Lehman (6) | 21,660.0 | 7.8 |
| 7. Bear, Stearns (8) | 16,513.8 | 6.0 |
| 8. Drexel Burnham (7) | 16,419.7 | 5.9 |
| 9. Prudential-Bache (9) | 15,712.3 | 5.7 |
| 10. Kidder, Peabody (10) | 8,319.1 | 3.0 |

Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### Non-investment grade debt

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Drexel Burnham (1) | 9,748.6 | 38.6 |
| 2. Shearson Lehman (12) | 2,361.0 | 9.3 |
| 3. Morgan Stanley (3) | 2,349.7 | 9.3 |
| 4. Merrill Lynch (4) | 2,252.5 | 8.9 |
| 5. Goldman, Sachs (7) | 2,195.4 | 8.7 |
| 6. First Boston (2) | 2,014.9 | 8.0 |
| 7. Salomon Brothers (5) | 1,508.3 | 6.0 |
| 8. DLJ (8) | 1,308.9 | 5.2 |
| 9. Bear, Stearns (13) | 547.0 | 2.2 |
| 10. Kidder, Peabody (10) | 375.0 | 1.5 |

Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### Mortgage and asset-backed debt

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Goldman, Sachs (1) | 21,257.9 | 15.7 |
| 2. First Boston (3) | 18,863.3 | 13.9 |
| 3. Prudential-Bache (8) | 14,888.3 | 11.0 |
| 4. Bear, Stearns (7) | 14,725.5 | 10.9 |
| 5. Salomon Brothers (2) | 12,483.2 | 9.2 |
| 6. Merrill Lynch (4) | 12,174.0 | 9.0 |
| 7. Shearson Lehman (5) | 8,184.5 | 6.0 |
| 8. Drexel Burnham (9) | 5,303.1 | 3.9 |
| 9. Morgan Stanley (6) | 5,178.5 | 3.8 |
| 10. Kidder, Peabody (10) | 4,994.0 | 3.7 |

Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### Initial public offerings

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Goldman, Sachs (6) | 2,087.9 | 15.0 |
| 2. Alex. Brown & Sons (7) | 1,858.5 | 13.4 |
| 3. Prudential-Bache (3) | 1,834.7 | 13.2 |
| 4. Merrill Lynch (1) | 1,161.8 | 8.4 |
| 5. Shearson Lehman (2) | 1,069.3 | 7.7 |
| 6. PaineWebber (4) | 946.0 | 6.8 |
| 7. Wheat, First Securities (5) | 903.5 | 6.5 |
| 8. Smith Barney (11) | 655.6 | 4.7 |
| 9. First Boston (9) | 646.0 | 4.6 |
| 10. Dean Witter (12) | 540.0 | 3.9 |

Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### Common stock

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Goldman, Sachs (5) | 3,786.8 | 16.5 |
| 2. Merrill Lynch (1) | 2,591.8 | 11.3 |
| 3. Alex. Brown & Sons (8) | 2,384.8 | 10.4 |
| 4. Prudential-Bache (3) | 1,937.5 | 8.5 |
| 5. Shearson Lehman (2) | 1,758.0 | 7.7 |
| 6. PaineWebber (4) | 1,434.5 | 6.3 |
| 7. Morgan Stanley (13) | 1,157.0 | 5.1 |
| 8. Wheat, First Securities (6) | 947.7 | 4.1 |
| 9. First Boston (10) | 922.9 | 4.0 |
| 10. Dean Witter (12) | 802.0 | 3.5 |

Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

### Preferred stock

| Firm | Volume $ mils. | Market share (%) |
|---|---|---|
| 1. Merrill Lynch (1) | 2,513.1 | 32.8 |
| 2. Shearson Lehman (2) | 2,041.5 | 26.6 |
| 3. First Boston (3) | 970.6 | 12.7 |
| 4. Morgan Stanley (7) | 525.0 | 6.8 |
| 5. Salomon Brothers (6) | 494.0 | 6.4 |
| 6. Smith Barney (9) | 320.0 | 4.2 |
| 7. Goldman, Sachs (4) | 319.0 | 4.2 |
| 8. Lazard Freres (NA) | 120.0 | 1.6 |
| 9. Prudential-Bache (14) | 105.0 | 1.4 |
| 10. PaineWebber (NA) | 60.0 | 0.8 |

Source: Securities Data Co., Newark, N.J.
Numbers in parentheses show the firm's 1988 ranking

ESOPS

# Sears gets its money's worth during 1989

■ What a year it was for Sears.

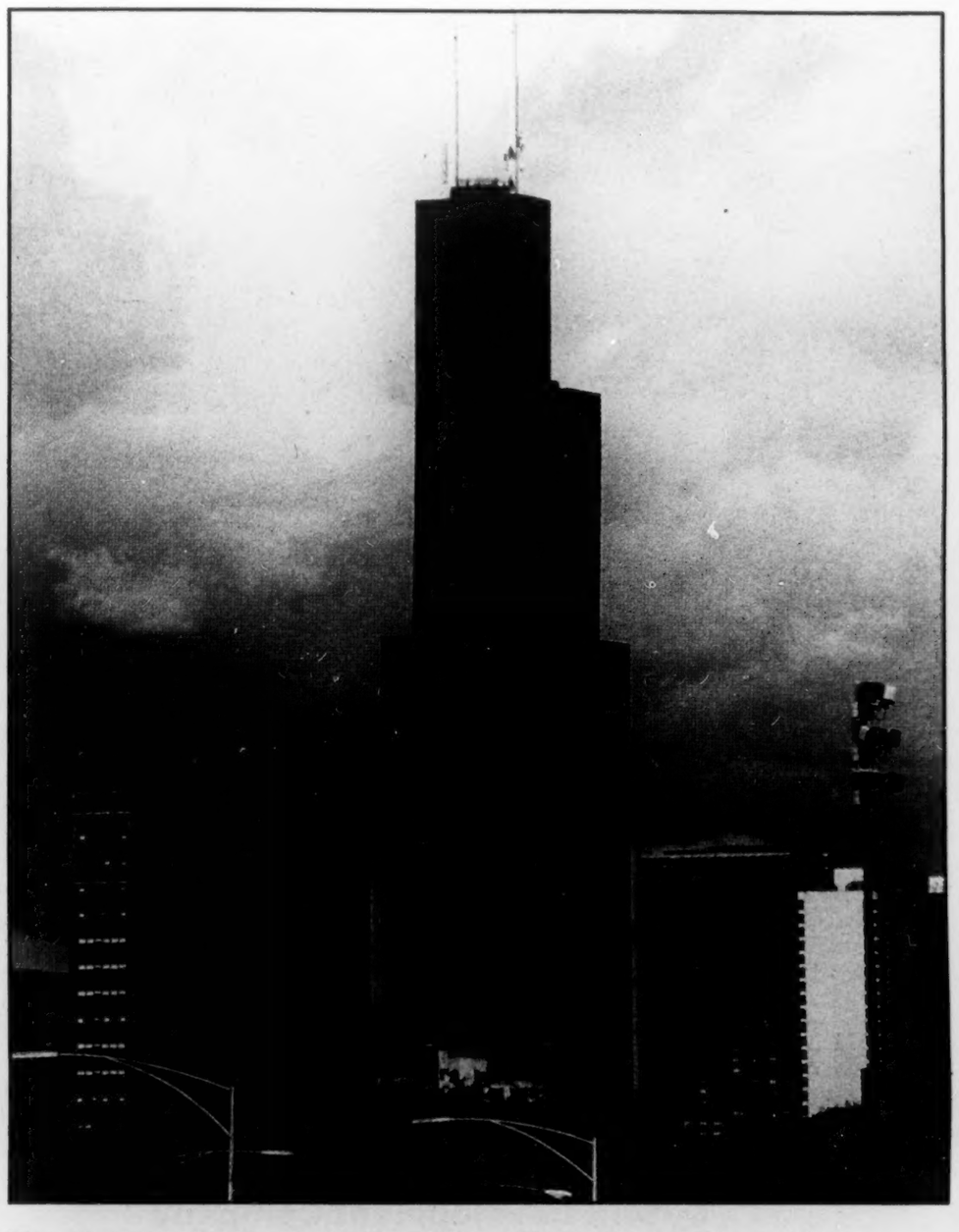
Without seeming to catch their breath, Sears executives tacked the creation of an $800 million ESOP onto a calendar that already held the implementation of the company's vastly reworked retailing strategy, the announcement of a corporate move and the subsequent effort to sell the landmark headquarters tower.

The latest move, announced Dec. 21, will involve the purchase of $800 million of the company's shares, which recently were selling at 37¾, to set up an employee stock ownership plan.

With the establishment of the ESOP, employee ownership will rise to about 21% of the company from 15%.

Sears' plan will rank among the 10 largest formed during the past year. Five companies — Bell Atlantic, BellSouth, Chevron, Exxon and Procter & Gamble — all set up ESOPs of $1 billion.

Sears joins Mobil Oil as having the second-largest plans at $800 million.



**The attempted sale of the Sears Tower was one of the major projects that kept company executives busy in 1989.**

PEOPLE

# TIAA-CREF pioneer dies

■ William C. Greenough, past president, chairman and chief executive officer of TIAA-CREF, the nation's largest pension fund, died Dec. 20 of complications from a heart attack. He was 75.

During his 38-year tenure, Mr. Greenough pioneered the variable-annuity stock fund concept, which led to the creation of the College Retirement Equities Fund to complement the Teachers Insurance and Annuity Association. He retired in 1979.

"Few people get the chance to play such a pivotal role in such an important field," said economist Paul Samuelson, who roomed with Dr. Greenough in Harvard's graduate school.

Mr. Greenough also was active in public policy issues.

In 1979, he was appointed to Jimmy Carter's Commission on Pension Policy, and served as chairman of the Committee for Economic Development's Subcommittee on Reforming Retirement Policies.

**TIAA-CREF's Mr. Greenough**

INVESTING

# Touts for State Street

■ The folks at State Street Bank & Trust Co. have plenty to brag about these days.

First, Value Line touted the stock of its parent — State Street Boston Corp. — in a Dec. 15 report. Then, in the Jan. 8 issue of Forbes, State Street was ranked 17th on a list of the 25 best-performing stocks of the 1980s.

The Value Line recommendation is particularly heady: "The list of . . . opportunities for this financial services disseminator of the Nineties is long, and prospects for capitalizing on them are better defined than for any growth company to come along in recent memory," Value Line's William Acheson wrote.

State Street Bank, he said, is the "recognized leader" and most likely to benefit from consolidation in the industry providing services to "megafunds." Among the bank's strengths are its global presence, master trust operations and money management business.

FINANCING

# Banks expand U.S. activities

■ Two European banks, France's Credit Lyonnais and Switzerland's Swiss Bank Corp., are expanding or restructuring their investment banking operations in the United States.

C.L. GlobalPartners, the U.S. investment banking subsidiary of Credit Lyonnais, has a small operation based in New York but has not made major inroads in developing new business in the corporate finance and merchant banking arenas.

In an effort to bolster that effort and help the firm make its mark, C.L. GlobalPartners hired four leading Wall Street professionals. Joining the firm as senior managing director is Patrick Kealy, formerly a senior vice president at Oppenheimer & Co. John A. Mendelson, who was formerly head of market analysis at Dean Witter Reynolds, was named exclusive consultant and market strategist. Frank Calta was named senior vice president and director of U.S. trading, and John Dockendorff, senior vice president for institutional sales. The two men held similar posts at Dean Witter Reynolds.

Swiss Bank Corp. has set up a new merchant banking group in New York, composed of six divisions headed by Joel Stewart, a senior vice president. The group includes corporate banking, real estate financing, structured finance, regional offices and credit monitoring and control.

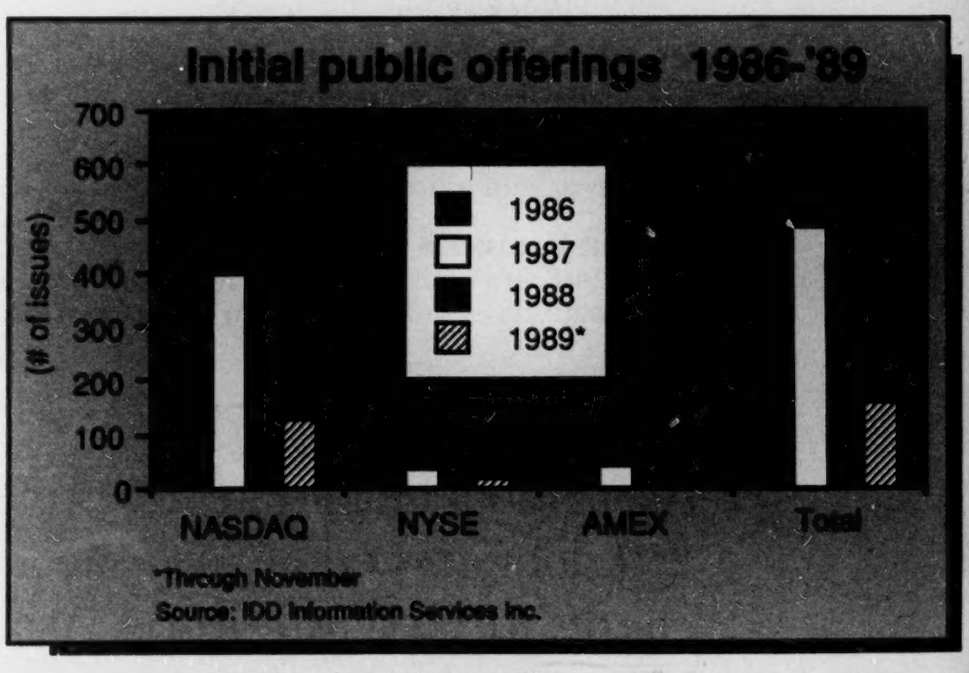
CASH MANAGEMENT

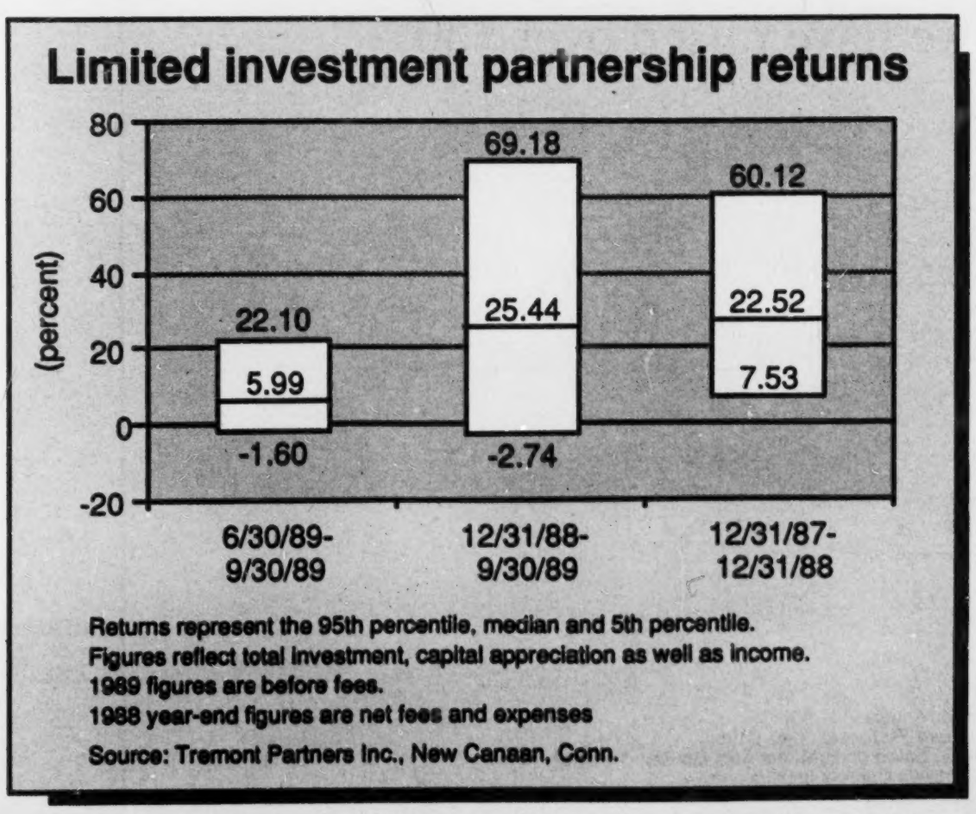
# Winds of change stir cash execs

■ More than 40% of the companies that have made changes in their cash management operations have instituted programs to review cash management service costs, a Greenwich Associates survey shows.

According to the survey, 20% of the companies made at least one of the following changes:

- Increased the number of cash management services used.
- Dropped a cash management banking service.
- Switched to fees from compensating balances.
- Added a bank for cash management services.
- Started using a microcomputer for cash operations.




REAL ESTATE

# Karsten assumes problem portfolio

■ The New York State & Local Retirement Systems has turned over to Karsten Realty Advisors, Los Angeles, a $185 million portfolio of troubled real estate and mortgages previously managed by Eastdil Realty Inc., New York.

Eastdil had run the portfolio — it didn't buy the properties or make the mortgages — since November 1986, but chose not to bid on the contract when it came up for renewal last fall, said Robert Hinckley, a spokesman in the New York State Comptroller's office.

Carl Mayer Jr., principal with Karsten, said a few of the properties are on a watch list and, in a few cases, the borrowers, not the properties, are having problems.

PEOPLE

# Chase promotes Zecher

■ J. Richard Zecher has been named chairman of Chase Investors Management Corp., and will be splitting his time between CIMC and Chase Manhattan Bank's global risk management area. Previously he was president of CIMC.

Some of his Chase Investors responsibilities will be assumed by Howard A. Scribner Jr., now vice chairman and chief operating officer of CIMC, which manages $32 billion in assets.

Mr. Zecher's assumption of responsibilities in the risk management area, which includes foreign exchange operations and commodity swaps, follows the resignation of Richard L. Huber, executive vice president in charge of the bank's securities business.

Mr. Zecher said he had taken on the risk management responsibilities on the condition that he could remain chairman at CIMC and retain his half-dozen client relationships. He said Mr. Scribner, who helped design Chase Investors Management in 1972, would be in charge of the day-to-day operations.

# Indexing

*Continued from page 1*

Corporate Bond Index returned 7.8% and 14.4% for the respective periods.

As of Nov. 30, assets in domestic bond indexes increased to $59.7 billion from $49.8 billion six months ago and $46.9 billion a year earlier.

Index fund managers expect the growth in international index funds to continue.

"On a percentage basis, U.S. indexed equity assets continue to grow," said Patricia Dunn, president of Wells Fargo Investment Advisors, San Francisco.

"What we see on the horizon is definitely international index funds."

International indexing has become popular among institutional investors for two reasons, Ms. Dunn said. "Pension funds are increasing in general their long-term policy allocation to international asset classes," she said. In addition, "the performance of active managers outside the United States has been very disappointing."

Wells Fargo had $4.035 billion in international equity index funds as of Nov. 30, up 33.6% from $3.021 billion as of May 31. The firm had $50.279 billion in domestic equity index funds, up 32.8% from $37.865 billion May 31. Wells Fargo also retained its position as the largest index fund manager, with $75.718 billion overall.

While many U.S. companies are looking overseas for increased diversification and reduced risk, foreign investors are turning to U.S. domestic equity indexes for many of the same reasons.

Wells Fargo now has more than $7 billion in assets invested for non-U.S. clients, Ms. Dunn said.

Nicholas Lopardo, a senior vice president with State Street Bank & Trust Co., Boston, reported that of his company's 120 index clients, 25% are foreigners, compared with 10% last year.

And interest by non-U.S. companies in domestic equity indexes has increased to the point that at Prudential Asset Management Group, Newark, N.J., this growth has canceled out the predominant interest the firm had seen previously in international indexing, said Dave Hurley, vice president.

"A little while ago I would have said foreign was growing much more dramatically because of the U.S. interest in foreign equities in general," he said. Now, he said, this has been somewhat balanced by foreign investors' interest in the United States.

"I think there's a lot of interest by foreign companies in U.S. indexed equities."

At Prudential, which has a total of $2.162 billion in indexed assets, indexed international equity assets have grown to $269 million as of Nov. 30, up 3.1% from $261 million as of May 31. Indexed domestic equities grew 29.1% to $900 million from $697 million in the same period.

Many money managers noted a move toward specialized indexes in both international and domestic index investments.

Specialized indexing is a hot growth area in international investing, focusing on such areas as small-capitalization, emerging markets and regional country funds, said Philip Leonardi, marketing director at Travelers Investment Management Co., Hartford, Conn.

TIMCO had $967 million in indexed assets as of Nov. 30. International equity indexed assets grew to $270 million, up 38.5% from $195 million as of May 31. Indexed domestic equities grew 25.4% to $410 million from $327 million in the same period. ■

## Leading index fund managers

**($ millions - as of Nov. 30)**

| Company | Total | Domestic equity | Domestic fixed | Int'l equity | Int'l fixed |
|---|---|---|---|---|---|
| Wells Fargo | 75,718 | 50,279 | 21,323 | 4,035 | 81 |
| Bankers Trust | 40,800 | 35,500 | 3,300 | 2,000 | 0 |
| State Street Bank | 27,504 | 16,064 | 2,523 | 8,801 | 116 |
| Mellon Capital | 26,760 | 21,940 | 4,220 | 600 | 0 |
| ANB Investment | 10,500 | na | na | na | na |
| Alliance | 8,350 | 7,300 | 250 | 800 | 0 |
| Boston Co. | 7,097 | 4,058 | 2,711 | 328 | 0 |
| Mellon Bond | 6,500 | 0 | 6,500 | 0 | 0 |
| GE Investment* | 6,000 | 6,000 | 0 | 0 | 0 |
| Dimensional Fund | 5,500 | 4,000 | 700 | 800 | 0 |
| Manufacturer's Nat'l/Detroit | 4,266 | 4,240 | 26 | 0 | 0 |
| Lincoln Capital | 4,200 | 0 | 4,200 | 0 | 0 |
| T. Rowe Price | 3,625 | 295 | 3,120 | 0 | 210 |
| Wilshire | 3,570 | 3,570 | 0 | 0 | 0 |
| Chase Investors* | 3,400 | 1,600 | 500 | 1,300 | 0 |
| Vanguard | 2,412 | 2,276 | 136 | 0 | 0 |
| Prudential | 2,162 | 900 | 993 | 269 | 0 |
| Sears | 2,085 | 1,900 | 0 | 185 | 0 |
| Fidelity | 2,038 | 665 | 655 | 718 | 0 |
| Lehman Mgmt. | 1,903 | 0 | 1,903 | 0 | 0 |
| BEA Associates | 1,620 | 1,160 | 460 | 0 | 0 |
| Chancellor Capital | 1,432 | 1,350 | 82 | 0 | 0 |
| Northern Trust | 1,299 | 1,172 | 72 | 37 | 18 |
| Security Capital | 1,275 | 0 | 1,225 | 0 | 50 |
| Putnam | 1,181 | 0 | 1,181 | 0 | 0 |
| Mitchell Hutchins | 984 | 395 | 589 | 0 | 0 |
| Travelers | 967 | 410 | 97 | 270 | 190 |
| Axe Core | 789 | 511 | 0 | 278 | 0 |
| Aetna | 747 | 650 | 97 | 0 | 0 |
| NCNB Texas | 729 | 700 | 29 | 0 | 0 |
| Boston Int'l | 721 | 0 | 0 | 721 | 0 |
| WR Lazard | 721 | 0 | 721 | 0 | 0 |
| Harris Trust | 570 | 390 | 180 | 0 | 0 |
| Capstone Asset | 500 | 500 | 0 | 0 | 0 |
| ASB Capital Mgmt. | 500 | 500 | 0 | 0 | 0 |
| First Wisconsin | 459 | 103 | 350 | 4 | 2 |
| Boatmen's | 425 | 400 | 25 | 0 | 0 |
| Fiduciary Trust | 400 | 0 | 400 | 0 | 0 |
| Monitor Capital | 298 | 102 | 146 | 50 | 0 |
| Associated Capital | 296 | 246 | 50 | 0 | 0 |
| Bear, Stearns | 280 | 0 | 280 | 0 | 0 |
| Todd Investment | 255 | 0 | 255 | 0 | 0 |
| NBD Bancorp | 220 | 220 | 0 | 0 | 0 |
| Western Asset | 204 | 0 | 204 | 0 | 0 |
| RXR Group | 198 | 49 | 149 | 0 | 0 |
| Metropolitan Life | 163 | 163 | 0 | 0 | 0 |
| Advanced Investment | 160 | 160 | 0 | 0 | 0 |
| Clifton | 158 | 89 | 69 | 0 | 0 |
| Old Kent Bank | 150 | 150 | 0 | 0 | 0 |
| **Total** | **262,091** | **170,007** | **59,721** | **21,196** | **667** |

*As of Sept. 30

# Parachutes

*Continued from page 1*

formation.

Many activist institutional investors believe it is time for a revision. They believe the rule too often is used as a catch-all by companies seeking to keep shareholder proposals off the proxy, a charge companies deny.

Members of USA have sponsored the golden parachute proposals at seven other companies: Champion International, Consolidated Freightways Inc., Crane Co., Eastman Kodak Co., Mellon Bank, Pittston Co. and Primerica Corp.

The resolution itself is simple. It says no compensation will be paid to any director, officer or employee of the company that is contingent upon the merger or acquisition of the corporation. A supporting statement accompanying the Transamerica shareholder resolution calls a golden parachute "an egregious example of management draining the corporate treasury at the stockholders' expense for their own private benefit."

USA helped draft a response to the SEC for its member-sponsors to counter the companies' challenges.

Emil Rossi, a USA member and the Transamerica shareholder who sponsored the golden parachute resolution, told the SEC in a letter he is alarmed that managers of public companies like Transamerica "are able to gain this personal protection from accountability to shareholders. Golden parachutes create financial incentives for corporate managers that are at odds with their fiduciary duties to shareholders. Ensuring managers that they'll suffer no personal loss of income from a takeover or other change of corporate control — indeed that they may well stand to gain handsomely — could discourage management from fulfilling its responsibility to operate the company in the shareholders' best interests."

USA is getting some support from Institutional Shareholder Services Inc., a Washington consulting firm. ISS has asked the SEC to reconsider its position, saying: "We think shareholders should be allowed to exercise direct oversight of golden parachutes."

A decision by the SEC is expected sometime this month in the Transamerica case.

In a letter to the SEC, Karen Stevenson, Transamerica's vice president-law, said the agency has long held the view that proposals concerning executive compensation relate to the ordinary business operations of a company. She made a lengthy case for why the board of directors and no one else should have the right to fix executive compensation.

"In order to attract and retain the highest quality of executives, a corporation must provide total compensation satisfactory to each such executive. Because of the rising takeover activity of recent years, executives increasingly have required that their compensation reflect the employment uncertainty caused by a possible change in control," Ms. Stevenson said.

"It is unreasonable to expect stockholders meaningfully and efficiently to evaluate the numerous issues involved with reviewing termination contracts because such a review is inextricably related to the ordinary business of a corporation."

Ms. Stevenson also said if stockholders voiced a negative opinion with respect to termination compensation, it would put the board of directors in the position of either adopting a position they don't agree with or risking a confrontation with stockholders. ■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# THE 1,000 LARGEST PENSION FUNDS

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January 22, 1990

# Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$8 An Issue / $127 A Year

## AT DEADLINE

### Transamerica loses bid

In a major policy change, the SEC rejected efforts by Transamerica to keep shareholders from voting on "golden parachute" severance agreements.

Transamerica and three other companies had asked the SEC to allow them to exclude — under the ordinary business rule — 1990 proxy resolutions sponsored by stockholders that call for golden parachutes to be submitted to a shareholder vote.

United Shareholders Association, Washington, which helped draft the Transamerica shareholder resolution, called the SEC decision a "major victory for shareholders."

### California selects 7

The $57 billion California Public Employees' Retirement System hired, subject to fee negotiations, three new firms, retained four current managers and dropped five for domestic equity.

The seven will run a total of $4 billion to $5 billion; specific allocations haven't been decided.

Newly hired were Trust Co. of the West, Oppenheimer Capital and State Street Bank and Trust.

Retained by the fund were Boston Co., Roll & Ross Asset Management, RCM Capital Management and Dimensional Fund Advisors.

Dropped were Brinson Partners, Batterymarch, TSA Capital, Lazard Freres and Atalanta/Sosnoff.

### Hawaii taps managers

The $4 billion Hawaii Employees' Retirement System hired three fixed-income managers for about $100 million each in a switch to core and active duration management from defensive.

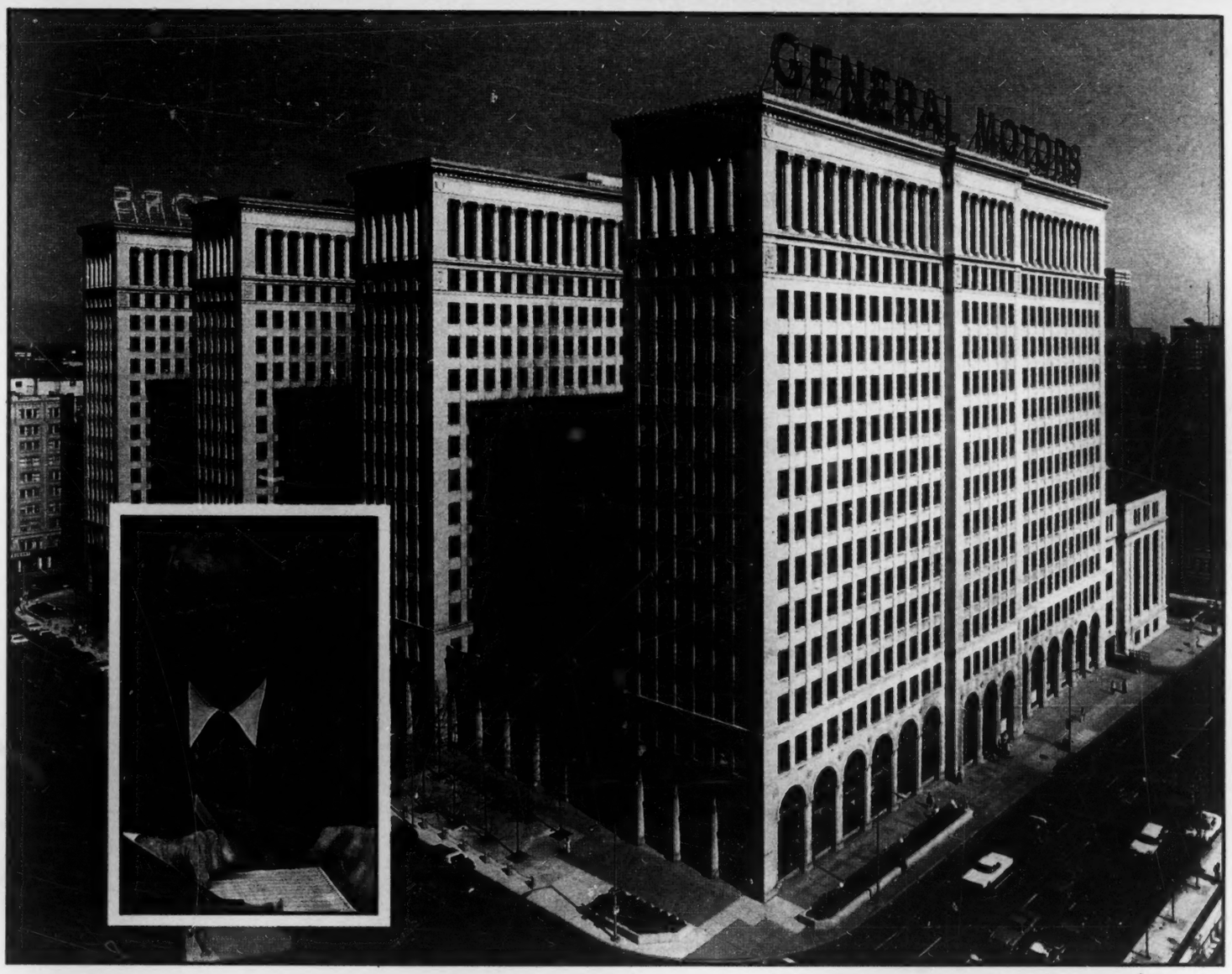
Hired were Lowe, Brockenbrough, Tierney & Tattersall, Brinson Partners and Bradford & Marzec Inc. Originally, the fund also selected Standish, Ayer & Wood, but could not reach agreement on fees.

Two fixed-income managers, including Lehman Ark, were terminated.

### NYC business loans eyed

The $6 billion New York City Police Department fund will purchase $50 million in

*See* **At Deadline** *on page 84*




**GM management, led by Roger Smith, inset, is reviewing the restructuring proposed by employees.**

# GM restructuring pushed

## Employee-shareholder group offers novel 10-point plan

**By Marcia Parker**

DETROIT — A group of General Motors Corp. employee-shareholders is seeking the support of management, institutional investors and other workers for an innovative restructuring plan that includes a $1 billion leveraged ESOP to revitalize the nation's troubled top automaker.

The 10-point stock value enhancement proposal might be adopted by the company or could be unveiled in the form of a shareholder resolution at the 1990 annual meeting in Detroit May 25.

GM engineer George Lyon, a leader of the group that devised the plan, said the proposal was discussed with top GM officials last week. "They've looked at it and they are favorable about it," Mr. Lyon said following the meeting. "It is still subject to a lot of further discussion. If they adopt it, we wouldn't need to put it into the proxy."

It is highly unusual for a group of employees to propose a restructuring plan — especially without the help of legions of investment bankers — take the plan directly to management and consider using the proxy as a means to achieve it.

Obviously proud of GM, Mr. Lyon has worked there for 35 years; his father is a 42-year GM veteran. He was reluctant to discuss the negotiations while management is considering the plan. He stressed the restructuring plan "is not aimed at overturning management . . . It does restructure the company over the long term. It addresses the concerns of institutional shareholders . . . It will go a long way toward

*See* **General Motors** *on page 83*

# Campeau action may hurt malls

**By Terry Williams**

Regional malls, which have been providing institutional investors with the highest returns in real estate, could drop in value as a result of the Jan. 15 bankruptcy filing by Allied Stores Corp. and Federated Department Stores Inc.

"There is not one doubt in my mind that the transaction price of regional malls — especially ones with these stores — will be lower today than three months ago," said Ronald A. Karp, president of a Summit, N.J., consulting firm that bears his name.

"It would be crazy to say that this would not be bad for property owners," Mr. Karp said.

"There is no more stability in the retail business," said Paul Saint-Pierre, president of Pension Realty Advisors, a real estate consulting firm in San Francisco.

Pension funds and other institutional investors own the majority of the nation's regional malls.

Mr. Saint-Pierre believes the investment decision-making process will change as a result of the bankruptcy filing by Toronto-based Campeau Corp.'s U.S. units.

"The investment decision will revolve around management's strategic plans to deal with a failed anchor," he said. "Can they bring another anchor in" in the event of a failure?

Many consultants and real estate managers said there may be adverse short-term effects because some vendors may refuse to ship merchandise, or if customers perceive that the Campeau stores

*See* **Campeau** *on page 83*

# Markets fuel 18% asset gain

**By Curtis Vosti**

Fed by strong market returns, the assets of the 1,000 largest employee benefit plans surged 18.2% in the year ended Sept. 30, to $1.875 trillion from $1.586 trillion a year earlier.

The growth was a dramatic change from the stagnant 0.5% increase for the previous year, and occurred even though defined benefit plans paid out more in benefits than they received in contributions from sponsors.

Still, the growth narrowly trailed that which would have been achieved if the funds had garnered market returns in each of the asset categories in which they are invested. On that basis, *Pensions & Investments* estimates, the assets would have grown to $1.885 trillion, an increase of 18.9% from 1988.

The survey results reflect a maturing of the pension industry, according to consultants, as a more-educated plan sponsor community is reducing risks and increasing returns by investing internationally, and lowering costs through the use of in-house indexed funds.

This bodes well for the future of the pension industry at a time when its continuing strength is becoming crucial: 1988 was the first year pension benefit payments significantly exceeded Social Security payments.

"The future pool of retirees will rely more on pension payments than current retirees," said Joseph Piacentini, research analyst for the Employee Benefit Research Institute, Washington.

Defined benefit assets account for 81.4% of the pension assets of the Top 200 plans, according to the survey. Fueled mostly by market returns, defined benefit assets among the Top 200 plans grew 19.7%, to $1.164 trillion, and assets in defined contribution plans — including profit sharing plans and 401(k)s — grew 15.5%, to $265.3 billion.

Profit-sharing plans showed the largest percentage growth — 22.9% — among the 200 largest employee benefit funds, climbing to $14.5 billion, while 401(k)/thrift plans grew 5.3%, to $85.2 billion.

In aggregate, large funds grew faster than smaller ones in *P&I*'s Top 1,000. While the 25, 50, 100 and 200 largest all registered gains of more than 19%, the bottom 800 grew 14.8% during the year, to $440.21 billion.

The 11th annual *P&I* survey of the Top 1,000 pension funds was compiled over a three-month period, through mailed questionnaires and follow-up telephone

*See* **Top 200** *on page 81*

# Contributions lag benefit payments

**By Fred Williams**

Benefits paid by defined benefit plans in the largest 200 employee benefit funds and reported to *Pensions & Investments* in 1989 exceeded new contributions by more than $10 billion, largely because of corporations slashing or totally eliminating their contributions.

Most credit stellar investment returns for allowing many plans to cut back contributions during the 1980s. Indeed, 30 corporate funds reported making no contribution in *P&I*'s 1989 data, compared with six in the 1988 data.

Benefit payments were about one-third greater than contributions: Total benefits paid by defined benefit plans in the Top 200 were $41.14 billion, while contributions to the plans totaled $30.72 billion.

The trend toward benefit payments outpacing contributions accelerated in the 1989 data, but began a year earlier, when benefit payments were $42 billion and contributions, $39.2 billion.

Among the 63 corporate funds giving data for both years, contributions reported to *P&I* in 1989 totaled $6 billion, vs. $9 billion reported in 1988. Benefit payments remained steady at $13 billion.

Contributions to the 52 public funds that provided data for both years dropped slightly, to $19.1 billion in 1989 from $19.3 billion in 1988. Benefit payments, however, rose slightly more, to $22.2 billion from $21.6 billion.

Data from Greenwich Associates Inc., Greenwich, Conn., showed contributions to corporate funds climbed to $40.5 billion in 1989, from $35 billion in 1986, but were expected to drop to $38.7 billion in 1989. Benefit payments made by corporate funds fell to $42.5 billion in 1988 from $48.6 billion in 1986, but were expected to climb to $46.8 billion in 1989.

The Greenwich data showed public fund contributions grew to $47.4 billion in 1988 from $30 billion in 1986; and were expected to be $42 billion in 1989. Benefits paid by public funds increased by a smaller amount, to $31.2 billion in 1988 from $27.7 billion in 1986, and were expected to be $34.2 billion in 1989.

Investment returns and changing tax laws are the main reasons sponsors cut their contributions. According to the Employee Benefit Research Institute, Washington, defined benefit plans returned a compound annual 19.2% for the five years ended Sept. 30.

"The strong capital markets over the last five or 10 years — which have provided a basically solid return well in excess of (pension funds') actuarial needs — have been a primary factor," said Philip J. Schneider, who works in Chicago as head of asset services for The Wyatt Co. Pension executives "have been able to build up a surplus and reduce tax-deductible contributions to their funds."

Jerry Facciani, president of Facciani & Co., Cleveland, cited the Omnibus Budget Reconciliation Act: "OBRA of 1987 clamped down on employer contributions to plans based on how well funded they are. If they are well funded, and many if not most plans are, the act generally precludes them from making contributions" that are tax deductible, he said.

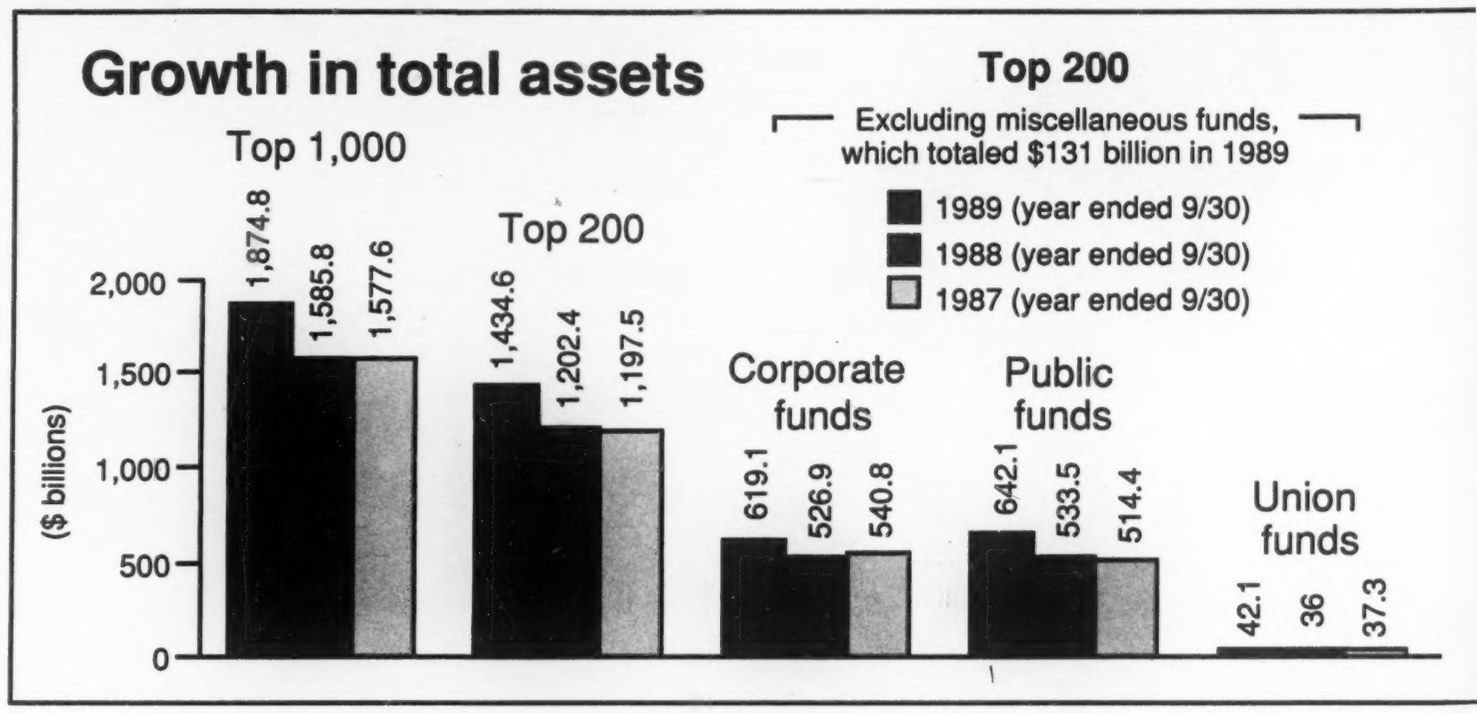
As for increasing benefit payments, Mr. Schneider said, they likely are a byproduct of "the whole business of an aging population and cost cutting by corporate America through early retirement programs."

"The only thing that could significantly alter (the growing gap between contributions and benefit payments) is an extended market downtrend, a significant market erosion that would require them to make contributions again."

Robert Ryan, an actuary with TPF&C in Dallas, said the differential between contributions and benefit payments "can't go on forever. You can't continue to take the money out and not put any back in."

John Byrd, investment management analyst with Rauscher Pierce Refsnes Inc., Dallas, said capital markets will not feel any effect from the slowdown in contributions. "It appears on the surface to be a net loss, but I don't think it is. It is a negative cash flow, which has nothing to do with the corpus or the body of pension assets. Investment gains have increased most pension funds significantly. So as far as the capital markets go, cash flow is not as important as the overall gains in financial assets over these past few years.

" . . . If the markets turn sour, then it could become an issue. But it would have to be a heck of a market drop for this to become an issue," Mr. Byrd said. ■




# Indexed assets rebound

## Public funds, internal management make difference

**By Terry Williams**

Indexing among defined benefit plans in *Pensions & Investments*' Top 200 employee benefit funds reversed its slide during the year ended Sept. 30, thanks to a significant gain in the use of equity and fixed-income indexing by public pension funds that largely manage the indexed assets internally.

After falling 7.66% on a market-adjusted basis for the year ended Sept. 30, 1988, defined benefit indexed equity assets increased about 2.25% on a market-adjusted basis in the year ended Sept. 30, 1989, according to *P&I* data. Indexed equity assets held by defined benefit funds in the Top 200 grew to $155.222 billion from $114.311 billion the year before. (The Standard & Poor's 500 Stock Index rose 32.8% during the year ended Sept. 30, and fell 12.39% during the previous 12-month period).

Defined benefit indexed fixed-income assets, meanwhile, climbed 21.9% on a market-adjusted basis to $55.412 billion as of Sept. 30 from $40.837 billion a year earlier. Indexed bond assets had fallen about 20% on a market-adjusted basis during the year ended Sept. 30, 1988. (The Shearson Lehman Hutton Government/Corporate Bond Index returned 11.3% for the year ended Sept. 30, and 12.8% for the year ended Sept. 30, 1988.)

Defined benefit equity index money managed internally increased 26.2% on a market-adjusted basis to $69.231 billion as of Sept. 30, from $41.3 billion a year earlier. Defined benefit bond index money managed in-house increased 540% to $16.405 billion as of Sept. 30, from $2.303 billion a year earlier.

Public funds in the Top 200 accounted for all of the growth in indexed assets managed internally. One — the $54 billion California Public Employees' Retirement System — was responsible for about one-third of the increase in internally managed equity indexed assets and more than one-fifth of the rise in stock indexing overall.

The California fund's indexed equity assets rose 216.4% to $13 billion as of Sept. 30, from $4.109 billion the previous year. The retirement system is working toward a goal of indexing about 85%, or $17 billion, of its $20 billion domestic stock portfolio.

Overall, indexed equity assets held by public funds grew a market-adjusted 8.8%, growing to $100.7 billion as of Sept. 30 from $69.7 billion a year earlier. Bond indexing among public funds increased by a market-adjusted 49.6% to $43.3 billion as of Sept. 30 from $26 billion a year earlier.

On a market-adjusted basis, both corporate and union funds decreased the amount of indexed stocks and bonds.

Pension executives clearly are getting more sophisticated in their use of indexing.

What began as a way to reduce fees for active investment management by many money managers who couldn't outperform the market has matured into a strategy used to move in and out of asset classes quickly and easily, as well as a vehicle in which to park excess cash.

Nestor Santiago, pension plan administrator with the World Bank, Washington, said he views indexing as a tactical allocation device.

"It's a quick way to get in and out of a particular asset class," Mr. Santiago said.

If General Electric Co. wants to reduce its pension fund's equity exposure, the change would be accomplished through index funds, as was done in 1988, explained Arthur Bahr, president of equity investments for GE in Stamford, Conn.

"We use it for asset allocation," Mr. Bahr said.

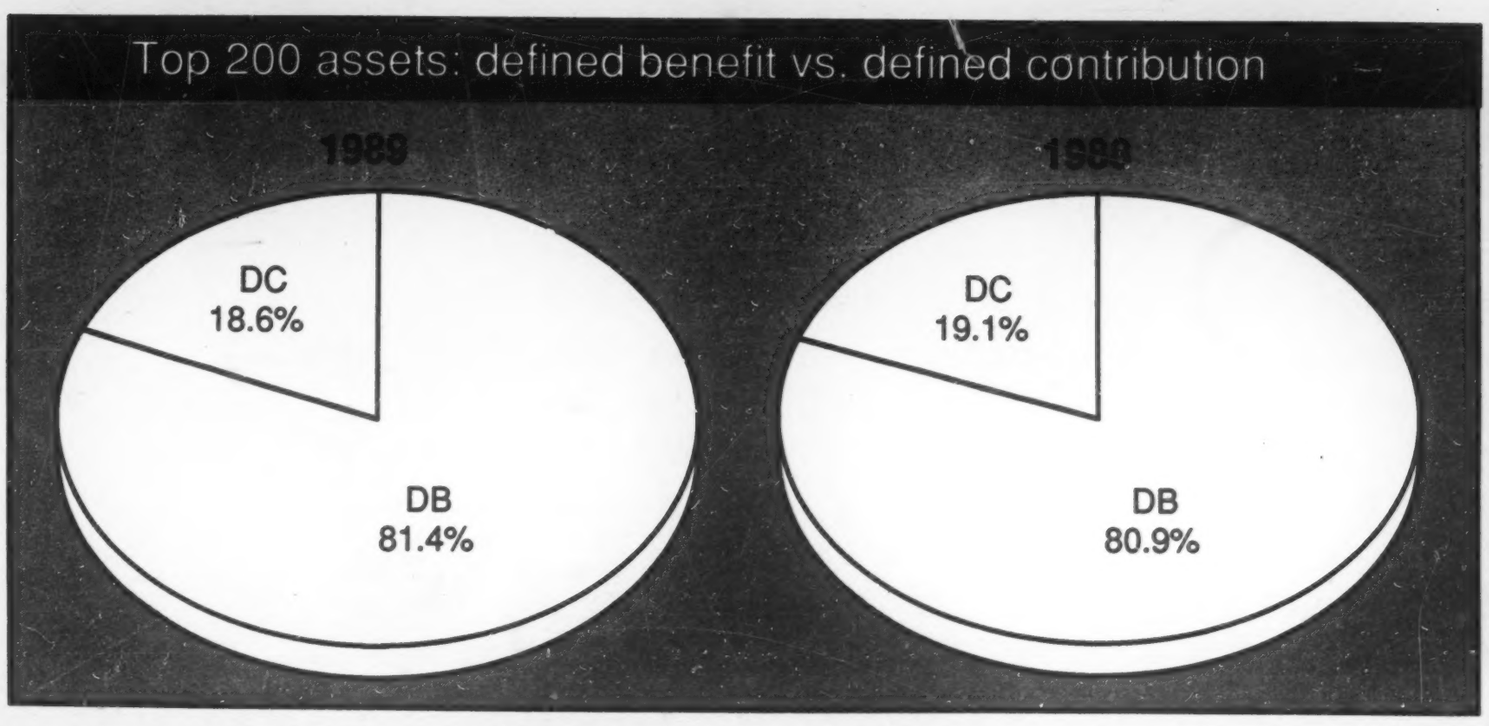
The pension fund of Amoco Corp., Chicago, uses equity indexing instead of holding onto cash, said Marvin Damsma, director-pension administration.

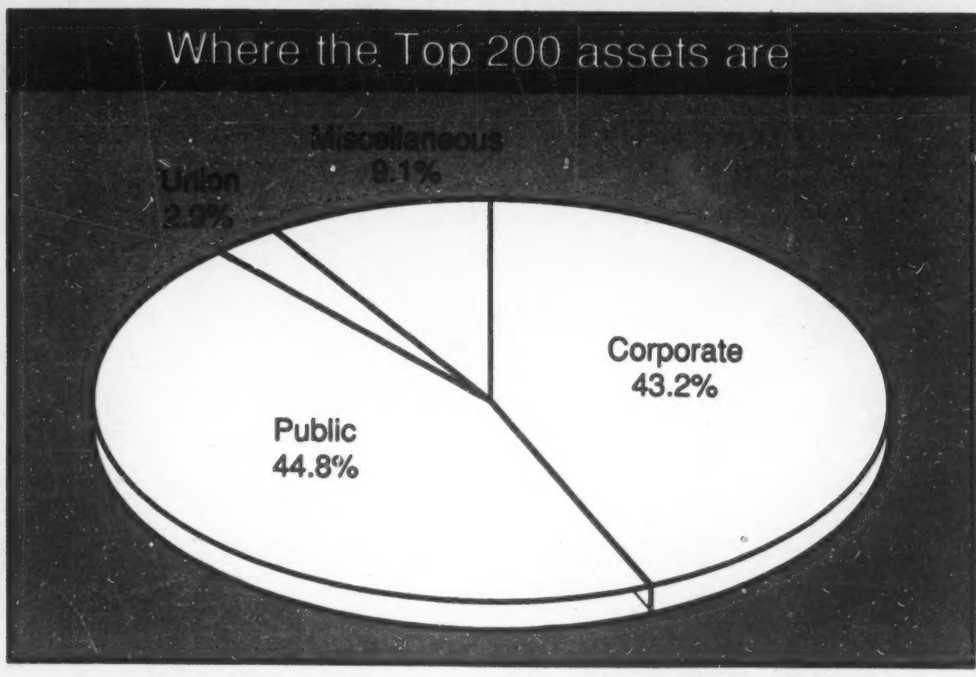
"We just use it as a daily liquidity fund," Mr. Damsma said. "It says nothing about our interest in indexing."

The Employees Retirement System of Texas, Austin, is using equity indexing — along with active management — to increase its equity exposure to 30%; the fund had 27% in equities as of Sept. 30, up from 21.9% a year earlier.

The Texas Employees fund's amount in equity index funds increased almost 87% on a market-adjusted basis to $499 million as of Sept. 30 from $201 million a year ago.

"That is the driving force behind it," said James Herod, deputy executive director. "We think passive is a good way to do it." ■



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# Funds play manager field

## J.P. Morgan remains most used adviser in *P&I* Top 200

**By Hillary Durgin**

Investment managers are trading on a wide range of services to attract new business and maintain their stable of clients from among the Top 200 largest pension funds.

Diversification seemed to be in everyone's interest in 1989, and pension executives' appetites ran the gamut when it came to the managers and the strategies they used. For money managers, the name of the game in 1989 was the ability to offer multiple products under one roof, whether the firms were banks or insurance companies or the tactics were active or passive, domestic or international.

J.P. Morgan Investment Management Inc., New York, guarded its position as the manager most frequently used overall with 61 accounts mentioned. The firm, which is an active, value-added manager, also ranked prominently among other asset classes, including fixed income and international, as did Wells Fargo Investment Advisors, San Francisco, the largest index fund manager and a hairbreadth competitor with 60 mentions overall.

Prudential Asset Management Group, Newark, N.J., which has a stable of separate management units, ranked third with 51 mentions, and Equitable Capital Management Corp./Equitable Real Estate Investment Management Inc., New York, ranked fourth with 49 mentions.

Trust Co. of the West, Los Angeles, another firm that runs assets in several classes, and Mellon Bank, with its host of subsidiary management companies, shared fifth place with 47 mentions each.

*Pensions & Investments* asked the Top 200 funds to list the managers they use to handle their defined benefit assets. If sponsors used a manager for more than one asset class, each counted in the manager's overall total. Their

*See* **Managers** *on page 67*

# Corporate funds demote real estate

**By Steve Hemmerick**

Major corporate defined benefit plans have dropped their percentage allocation to equity real estate half a percentage point below the 5% minimum consultants claim is necessary for real estate to have any positive diversification effects on the plans.

For the same period — the year ended Sept. 30, 1989 — public funds increased their percentage allocation to real estate slightly to 3.8% of assets from 3.4%.

The allocation figures were gleaned from *Pensions & Investments*' survey of the largest 200 employee benefit funds.

Dollar allocations to real estate for defined benefit plans were $18.7 billion for corporate, $22.3 billion for public, $788 million for union and $1.87 billion for miscellaneous.

For the 12-month period, the largest funds did make an estimated $5.9 billion investment in net new dollars, minus normal appreciation, into real estate for a 15.9% increase in assets.

In raw numbers, unadjusted for normal appreciation, the largest funds had $8.3 billion more in real estate. But virtually all of the new dollar increase came from public funds and regional telephone company pension plans.

For large corporate defined benefit plans, the percentage drop in the allocation to real estate was 0.6 percentage points, to 4.5% of assets from 5.1%.

Some of the loss in allocation could be attributed to the performance of the stock and bond markets, which by outperforming real estate, made the stock and bond portfolios larger by comparison.

But a further examination of the data showed that large corporate plans, excluding the four regional telephone companies in the Top 200 that reported their real estate assets, invested only $105 million more in real estate when their investments were adjusted for the normal appreciation of real estate assets of 6.7%.

The pension funds of regional telephone companies, which became independent last decade, have been in a growth mode and are atypical of most major corporate plans.

The 6.7% return figure used to determine normal appreciation was the increase for real estate for the year ended Sept. 30 in the FRC Index for real estate. It is considered a conservative indicator because it doesn't include developmental or leveraged real estate.

Consultants have long contended that pension plans need at least 5% of their assets in real estate for its diversification effects to be felt, and many consultants recommend a 10% allocation to real estate.

But according to Paul Saint-Pierre, president of the real estate consulting firm Pension Realty Advisors, San Francisco, major corporate plans as a group have not been increasing their allocation to real estate because many are overfunded and aren't making employer contributions, which provide cash for new investment.

He also said corporate fund executives generally have shown an unwillingness to take money from their high-performing stock and bond portfolios to put into real estate to keep the same asset allocation level.

That reluctance stems partly from concerns about the real estate market, he said. In other cases, he said, some corporate plans are satisfied with their current real estate allocation.

There are exceptions. Sears, Roebuck & Co., Chicago, increased its allocation to real estate to $88 million from $40 million, which seems to be a significant increase.

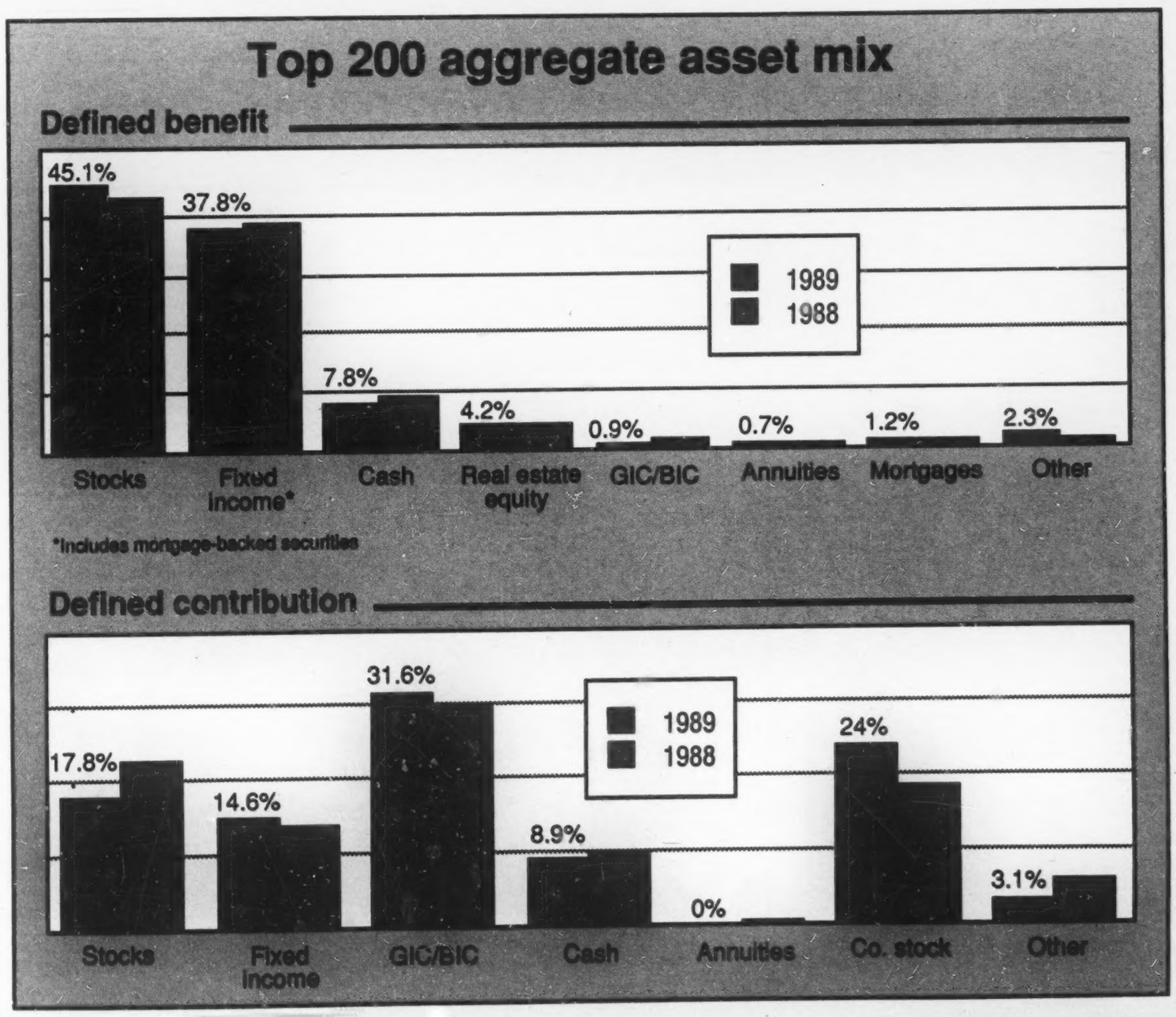
But David D. Dootson, president of Sears Investment Management, Chicago, said: "The (Sears defined benefit) plan is $3 billion so (on a relative basis) $40 million is almost irrelevant. You've got to put it in perspective. It didn't represent any significant shift; it just brought it up a little higher."

Even in the case one of the baby Bells — Southwestern Bell Corp. — sharp increases in real estate have ended.

Southwestern Bell's $7.166 billion defined benefit plan had an $89 million increase in equity real estate investments, to $749 million from $660 million.

But Mary Anne Devine, director of pension investments, said the plan has reached its targeted 10% allocation to real estate, and future increases will come from appreciation, not major flows of new

*See* **Real estate** *on page 68*




**Top managers overall**

| | Times mentioned |
|---|---|
| J.P. Morgan | 61 |
| Wells Fargo | 60 |
| Prudential | 51 |
| Equitable | 49 |
| TCW | 47 |
| Mellon* | 47 |
| Bankers Trust | 41 |
| Aetna | 39 |
| Alliance | 38 |
| Capital Guardian | 38 |

**Top equity managers**

| | Times mentioned |
|---|---|
| Wells Fargo | 30 |
| Alliance | 25 |
| Mellon* | 23 |
| Bankers Trust | 20 |
| Capital Guardian | 16 |
| Loomis, Sayles | 16 |
| Dimensional Fund | 15 |
| INVESCO | 15 |
| Lazard Freres | 15 |
| Barrow, Hanley | 14 |
| RCM Capital | 14 |
| Trinity | 14 |

**Top bond managers**

| | |
|---|---|
| PIMCO | 27 |
| J.P. Morgan | 24 |
| Loomis, Sayles | 14 |
| Criterion | 13 |
| Miller, Anderson | 12 |
| Wells Fargo | 12 |
| Fischer, Francis | 10 |
| Lincoln Capital | 10 |
| Mellon* | 10 |
| Putnam | 10 |

**Top int'l managers**

| | |
|---|---|
| State Street Bank | 15 |
| Capital Guardian | 14 |
| J.P. Morgan | 12 |
| Baring Int'l | 11 |
| Brinson Partners | 10 |
| Morgan Grenfell | 10 |
| Nomura | 10 |
| Schroder Int'l | 10 |
| Wells Fargo | 10 |
| WorldInvest | 9 |

**Top realty managers**

| | |
|---|---|
| RREEF | 76 |
| JMB | 34 |
| Equitable | 33 |
| Prudential | 27 |
| Aetna | 24 |
| TCW | 23 |
| LaSalle | 20 |
| AEW | 18 |
| Copley | 16 |
| Heitman | 13 |

*Includes all mentioned subsidiaries of Mellon Bank